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INFO RHEFDIA/DIA WASHINGTON DC
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RUZDHTR/HOTR WASHINGTON DC//USDAO ISLAMABAD PK//
RUWSMXI/AMC INTEL CEN SCOTT AFB IL//INO/J2-J//
RUEPVAA/CDR JSOC FT BRAGG NC//J2/HSE//
RHMFISS/CDR USCENTCOM MACDILL AFB FL//CCJ2-JCH/HSE//
RHLFABN/CDR USESUCOM ABNCP VAIHINGEN GE//ECJ2/ECJ3/ECJ5-A//
RHMFISS/CDR USSOCOM MACDILL AFB FL//SOJ2/HSE//
RHMFIUU/CDR USTRANSCOM TCJ2 SCOTT AFB IL
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RUEAIIA/CIA WASHINGTON DC//DDI/OEA//
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RHEFDIA/DIA WASHINGTON DC//DHO-3//
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RUEKJCS/JOINT STAFF WASHINGTON DC//J2/J5-EUR//
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH
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RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG-CE-CM/IANG-GS-AA//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG/CE/CECM//
RUCXONI/ONI WASHINGTON DC//32/211//
RUEALGX/SAF WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC//USDP-ISA-ADMIN//
RULWAAM/STRATCOM IDHS-90 OFFUTT AFB NE//J22123//
RUEPGAA/US SURVEY DIV SHAPE BE
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
RUEHIL/USDAO ISLAMABAD PK
RUCQSAB/USSOCOM INTEL MACDILL AFB FL
RUEHLO/AMEMBASSY LONDON 0050
RUEHNE/AMEMBASSY NEW DELHI 4721
RUEHBUL/AMEMBASSY KABUL 0103
RUEHLH/AMCONSUL LAHORE 7043
RUEHKP/AMCONSUL KARACHI 1427
RUEHPW/AMCONSUL PESHAWAR 5973
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC

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SUBJ: BI-WEEKLY REPORT ON THE ECONOMIC ISSUES, 09 April 2009

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TOP STORIES
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11. (SBU) Pakistan's economy is projected to grow 2.5 percent in FY08-09. The State Bank of Pakistan (SBP), the Economic and Social Commission for Asia and Pacific, and the Asian Development Bank all made similar growth estimates after factoring in recent manufacturing declines, rupee depreciation, and inflation. From July to January, the economy registered negative growth of 5.4 percent. The services sector, which at 53 percent accounts for the biggest share of GDP, declined primarily as a result of the global economic slowdown. The IMF said on April 3 that Pakistan's monetary policy is appropriate, but there may be room for interest rate reductions if inflation declines further; moves which should stimulate GDP growth.

12. (SBU) The SBP released its report on the second quarter of FY08-09. The report, which covered data through December 31, contained few surprises. Pakistan's macroeconomic indicators have begun to improve, and Pakistan has met IMF targets on budgetary borrowing, net foreign assets, and net domestic assets. However, the country will likely not meet key GDP, inflation, remittances, exports and large-scale manufacturing targets. While inflation will likely remain above 20 percent in the third quarter, the SBP predicted that it could fall sharply in the final quarter. Exports were expected to miss the target of USD 22.9 billion and come in at around USD 18.5 - USD 19.5 billion. (Comment: The second quarterly report can be found on the State Bank web site: <http://www.sbp.org.pk> . End Comment.)

13. (SBU) The Asia Society reports that one million workers have lost their jobs in Pakistan's urban areas in the past six months. A report entitled, "Back from the Brink? A Strategy for Stabilizing Afghanistan-Pakistan," draws attention to high unemployment as a source of tension in Pakistan, where 40 percent of the population lives on under USD 1.25 a day. The vice-president of the World Bank, Shahid Burki, said that the per capita income in Pakistan may decline significantly this year, increasing the level of poverty. (Comment: Official GOP statistics show unemployment at 5.2 percent, an extremely questionable figure which does not take into account massive underemployment. End Comment.)

14. (SBU) On March 27, the News and Business Recorder reported that
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the Karachi Electric Supply Company (KESC) signed a memorandum of understanding with ABB Pakistan to launch an energy conservation program. In the first stage, the KESC will target industrial and bulk electricity consumers to raise awareness about the national importance of conserving electricity. (Comment: A KESC official said that ABB Pakistan would provide his company with technical assistance in this regard. The program plans to target industrial users. He added that KESC did not have the means to enforce the GOP's energy conservation program (such as curtailing the operating hours of shopping centers, disconnecting billboard power supplies, and minimizing street light use). End Comment.)

15. (SBU) Worker remittances have risen 19 percent so far this year, but are not expected to meet the FY09 target of USD 7.7 billion. The SBP reported that Pakistanis working abroad will likely send USD 7.3 billion home this year. On March 31, the Daily Times reported that the Federal Minister for Overseas Pakistanis, Dr. Farooq Sattar, told the Karachi Chamber of Commerce and Industry that incentives would be offered to overseas Pakistanis to double remittances to USD 15 billion for FY2009-10. He plans to meet with State Bank Governor Raza to devise an appropriate incentive plan. (Comment: While it is true that remittances continue to rise, there is widespread concern that this may be an anomaly related to overseas Pakistanis losing their jobs and cashing out assets before returning home. A Ministry of Finance official said that they had not observed large returns of overseas Pakistanis, but that the next six months should be crucial in this respect. End Comment.)

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BANKING AND FINANCE
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16. (SBU) On March 24, Morgan Stanley Capital International (MSCI) moved Pakistan into its Frontier Markets Index, ending a long period of uncertainty regarding the country's classification after it was removed from the MSCI Emerging Markets Index at the end of December 2008. The index is a widely used reference of institutional investors, who have taken millions of dollars out of portfolio investments in the country over the past year. (Comment: Junaid Mirza, a director of the Karachi Stock Exchange, said that Pakistan's exclusion from the Emerging Market Index was expected due to the stock market's three-month suspension of trading when the emergency floor was imposed in late August. Mirza said that the change is a downgrade and indicates a high risk country. However,

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Mirza expects that Pakistan will soon be reinstated in the Emerging Markets Index, which is revised quarterly. End Comment.)

¶17. (SBU) The Karachi Stock Exchange (KSE)-100 index ended April 3 at 7,432.88, up 9.25 percent over its March 27 closing (6,803.46). Total share turnover was 330.16 million, up from 229.62 million from the week before. Market capitalization increased to USD 27.76 billion from USD 25.41 billion during the week. The net foreign investment outflow was USD 7.5 million. The banking, energy, fertilizer and cement sectors were among the top performers. (Comment: KSE contacts told Consulate Karachi that the market was driven by the IMF's release of the second tranche (USD 847 million) of its Stand-By Arrangement, and by World Bank approval of a USD 500 million loan. Local institutions and high net worth individuals were the main investors during the week. End Comment.)

¶18. (SBU) The Lahore Stock Exchange shrugged off the terrorist attack on the police training center and continued its bull run, gaining 10 percent over the last 2 weeks. Volume was heavy and the rally was broad. Gainers outnumbered losers more than 2 to 1.

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BUSINESS
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¶19. (SBU) Twelve thousand jobs may be lost as a major knitwear concern closes its operations in Lahore and Multan, according to the News. The All Pakistan Textile Mills Association echoed this grim assessment in the Business Recorder, arguing that political turmoil and load shedding were crippling Pakistan's textile sector.

¶110. (SBU) Leading traders in Peshawar shut down their businesses for a day to protest lawlessness and kidnappings. The March 28 strike continues a four-month trend of agitation from businesspeople seeking the restoration of law and order in NWFP. The Business Recorder reported a 50 percent reduction over the last four years in trucking operations in NWFP, a crucial business in the province. (Comment: According to trucking association officials in Peshawar, the long-term decline in NWFP trucking reflects militant activity in areas like Swat, Bannu, Bajaur, Orakzai and Parachinar. Although threats and attacks directed at truckers driving cargo to Afghanistan have increased in the last six months, the slowdown in trucking is related more to problems with the staging procedures in Peshawar. One local source observed that U.S., NATO and ISAF

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forces' consignments "are rolling through the area without fail, despite the tough circumstances." End Comment.)

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PORTS
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¶111. (SBU) On March 24, the Daily Times reported that the cost of container handling at terminals in Pakistan's ports is more expensive than others in the region, after foreign shipping lines raised their charges by 15 percent. Handling charges for a 20-foot container went from USD 82 to over USD 94, and from USD 129 to USD 142 for a 40-foot container. A comparative study of tariffs of the regional ports shows Karachi Port is the most expensive port in South Asia, followed by Port Qasim, Jawaharlal Nehru Port (India), and Sri Lanka Port. Regional ports in Singapore and Dubai are less expensive and provide better service. (Comment: Karachi Chamber of Commerce and Industry President Anjum Nisar said that trade and industry associations have requested the GOP to bring port and terminal charges in line with those of other regional ports, but the government has yet to act. End Comment.)

¶112. (SBU) On April 2, Port Qasim Authority officials confirmed that the port's USD 11.4 million Liquid Cargo Terminal (LCT) is now operational. The LCT is the first private-sector project in Pakistan established to handle liquid bulk products such as edible oils and molasses. The port jetty has a common user pipeline designed to meet the requirements of tank terminals.

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ENERGY AND POWER
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¶13. (SBU) Pakistan Electricity Power Company (PEPCO) previously indicated that load shedding might end as early as April 1. However, rolling blackouts continue, according to the Daily Times, with tailors missing deadlines and losing business and neighborhoods in Lahore suffering from water shortages. The Pakistan Industrial and Traders Associations Front told the News that load shedding was "killing" industry. Local newspapers reported that PEPCO temporarily suspended load shedding during President Zardari's March 28-29 visit to Lahore, however.

¶14. (SBU) Pakistan Petroleum Ltd. (PPL) acquired a 75 percent

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interest in Tullow Pakistan Developments, Ltd (a subsidiary of UK-based Tullow Oil Plc) in the Chachar gas fields. The remaining 25 percent working interest in Chachar will continue to be held by Government Holding (Pvt) Ltd. Located in Sindh, Chachar is an extension of the Kandhkot gas field, wholly owned and operated by PPL. It was commissioned in August 2007 and supplies purified gas to Guddu Thermal Power Station. Production from the three wells is around 10 million cubic feet per day.

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AGRICULTURE
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¶15. (SBU) Pakistan will not meet its 2009 wheat production target. The Ministry of Food and Agriculture (MinFA) reports that Pakistan's wheat harvest will be under 23.5 million tons, short of its goal of 25 million tons. This is still one million tons more than Pakistan's estimated consumption, however. MinFA claimed that the decline in production, despite a 6 percent increase in cultivation area, was because less water and fertilizer were available to farmers. Dawn reports that Punjab province anticipates a robust crop, possibly exceeding 18 million tons. Farmers are concerned that a bumper crop will cause a price crash, however. (Comment: Punjab Secretary Food, Irfan Elahi, told Econoff that provincial government procurement will maintain an adequate price floor. End Comment.)

¶16. (SBU) Several local newspapers reported that flour prices in Punjab increased by more than 10 percent, to Rs. 460 (USD 5.75) per 20 kg bag, after the Punjab Food Department started phasing in the impact of the new official wheat purchase price. Punjab Food Secretary Irfan Elahi told Econoff April 1 that he expects that Punjabis will pay approximately Rs. 500 (USD 6.25) per 20 kg of flour by April 15, which is in line with the price in other provinces. Elahi also stated that Punjab's "sasti roti [cheap bread]" or "two rupee roti" subsidy scheme would cost Rs. 24 million (USD 300,000) per day once flour reaches Rs. 500 per 20 kg. As an indication of its political significance, Chief Minister Shahbaz Sharif has floated the idea of implementing a "one rupee roti" program.

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TELECOMMUNICATIONS
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¶17. (SBU) Telenor Pakistan plans to establish cell phone service in North Waziristan, with work starting this month. The GOP has authorized Telenor Pakistan to erect three transmission towers to provide mobile phone service to all of North Waziristan Agency. The towers will reportedly be constructed inside government installations to protect them from saboteurs. Located in Miramshah, Mirali and Boya, the towers will connect the agency with the rest of the country. Presently, there is no cellular phone service in the North Waziristan agency.

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SCIENCE AND TECHNOLOGY
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¶18. (SBU) On April 2, the News reported that the American Society for Microbiology (ASM) set up a country liaison office at the Jinnah University for Women in Karachi. Dr. Shahana Urooj Kazmi, a Dean at the University of Karachi (KU), has been appointed the first country liaison officer. Last year, the ASM accepted all 12 KU graduate student research papers submitted to the organization. This year, 10 of these students will travel to Boston to present their papers. (Comment: Dr Kazmi confirmed the news on April 3. She added that she would like to establish ASM/PSM (Pakistan Society for Microbiology) centers in universities across the country. End Comment.)

PATTERSON